Office - Supreme Court, U.S.
FILED
JUL 2 1984
ALEXANDER L. STEVAS,
CLERK

No. 2163

IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1984

GARTER-BARE COMPANY, a limited partnership, and KNUT L. BJORN-LARSEN,

Petitioners,

vs.

MUNSINGWEAR, INC., a Corporation,

Respondent.

(Non-Patent Documents)
APPENDIX TO
PETITION FOR A WRIT OF CERTIORARI
To the United States Court of Appeals
for the Ninth Circuit

DRISCOLL & TOMICH
Robert W. Driscoll
Lillian Tomich
2297 Huntington Drive
San Marino, CA 91108
CHARLES ALAN WRIGHT
727 East 26th Street
Austin, TX 78705
CHARLES E. McCLUNG, SR.
24012 Calle de la Plata
Laguna Hills, CA 92653
Attorneys for Petitioners

JOHN E. WAGNER
3541 Ocean View Boulevard
Glendale, CA 91208
(818) 957-3340
Counsel of Record for Petitioners

July 2, 1984

APPENDIX

(NON-PATENT DOCUMENTS)

TABLE OF CONTENTS

	PAGE
OPINION OF THE COURT OF APPEALS.....	1
RULINGS ON PETITIONS FOR REHEARING.....	72
OPINION OF THE DISTRICT COURT.....	77

CROSS-REFERENCE TABLE

[References in Body of Petition to Portions of Appendix, Corrected to Reflect Final Appendix Page Numbers]

REFERENCE IN PETITION		
Petition Page	Refers To	CORRECT REFERENCE IN THIS APPENDIX
iii	A-1.....	1
iii	A-16.....	72
iii	A-19.....	77
2	A-1 to A-15.....	1-71
2	A-16 to A-18.....	72-76
2	A-19 to A-37.....	77
3	A-18.....	75
15	A-29.....	98
16	A-29.....	98
21	A-7, A-8.....	33, 34
49	A-10.....	49

GARTER - BARE COMPANY, an unincorporated association (a limited partnership), an Knut L. Bjorn-Larsen, Plaintiffs and Appellants,

v.

MUNSINGWEAR INC., a corporation, et al., Defendants-Appellees.

Nos. 82-5270, 82-5439

United States Court of Appeals, Ninth Circuit.

Argued and Submitted Sept. 26, 1983

Decided Jan. 13, 1984.

On remand of 650 F.2d 975, the United States District Court for the Central District of California, Jesse W. Curtis, H., rendered verdict for limited partnership and its general partner granting them judgment for breach of contract, royalties for patent

infringement, compensatory and punitive damages for fraud and damages for trade secret misappropriations. Defendant moved for judgment notwithstanding the verdict or for a new trial and district judge granted judgment n.o.v. as to all but fraud claim, and appeal was taken. The Court of Appeals, Chambers, Circuit Judge, held that: (1) contract claim was barred by California statute of limitations; (2) district judge's conclusion that claimed patentable aspects of device were not known and that limited partner had not produced anything beyond ordinary skill in the art, was not clearly erroneous; (3) fraud claims were not barred by limitations; (4) question of trade secret infringement was for the jury; and (5) question of tortious interference with

prospective business advantage was for the jury.

Reversed in part and affirmed in part and remanded.

Ely, Circuit Judge, filed an opinion dissenting in part.

1. Federal Courts 765

The standard for reviewing judgments n.o.v. is the same for the Court of Appeals as it is with the district courts.

2. Federal Civil Procedure 2610

Judgment n.o.v. is proper if evidence permits only one reasonable conclusion as to the verdict.

3. Federal Courts 801 On appeal from judgment n.o.v., the Court of Appeals views evidence in the light more favorable to party against whom motion is made.

4. Limitation of Actions 46(1)

Where parties to contract for a program

for commercial application of a process for garterless device for supporting women's hosiery intended that payments under contract be made at first of the month, California four-year statute of limitations for contract actions began to run when the first of three disputed payments were not paid and since plaintiff failed to file complaint within the four-year period, action for alleged breach of contract was barred. West's Ann.Cal.C.C.P. §337, subd. 1.

5. Patents 314(5)

Obviousness of a patent is a question of law for the courts.

6. Patents 324.55(4)

In action alleging infringement of a patent for the process of making effective single-layer garterless panty-girdle leg, district judge's conclusions that claimed

patentable aspects of the device were not novel and that inventor had not produced anything beyond ordinary skill in the art but rather that his claimed novelty was reflected in two patents that had not been before the patent examiner were not clearly erroneous. Fed.Rules Civ.Proc.Rule 52(a), 28 U.S.C.A.

7. Federal Civil Procedure 2141

Disputed fact issues are within the province of trier of fact.

8. Limitation of Actions 100(11)

Complaint alleging fraud in connection with a patent was not barred by California statute of limitations for fraud, although defendant contended that a reasonable person would have discovered fraud earlier and that fraud issue was time-barred; notice of violation of contract or patent rights did not trigger a duty to inquire as

to possible fraud under reasonable person notice requirements of the California statute of limitations. West's Ann.Cal.C.C.P. §338, subd. 4.

9. Torts 10(5)

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if he discovered secret by improper means, or hid disclosure or use constitutes a breach of competence reposed in him by the other in disclosing secret to him.

10. Fraud 27

In action alleging infringement of trade secrets, there was substantial evidence that plaintiff did possess valuable secrets which he disclosed confidentially to defendant pursuant to their agreement prior to issuance of plaintiff's patents and that defendant

merchandised garment that was very closely similar to plaintiff's process, however, questions of existence of confidential relationship, fradulent motive and timing and notice of defendant's abandonment of project, and continued use of plaintiff's information and ideas were for the jury. 11. Torts 10(3)

To recover on a claim for tortious interference with a prospective business advantage under California law, plaintiff must establish existence of special economic relationship between plaintiff and third parties that may economically benefit plaintiff, knowledge by defendant of that relationship, intentional acts by defendant designed to disrupt relationship, actual disruption of relationship, damages to plaintiff, and that some identifiable pecuniary or economic benefit accrued to

defendant that formerly accrued to plaintiff.

12. Torts 28

In action alleging tortious interference with a prospective business advantage, question of whether there was tortious interference by defendant with plaintiff's ability to obtain any successful commercial advantages with others was for the jury.

John E. Wagner, Glendale, Cal., Lillian Tomich, Robert W. Driscoll, Driscoll & Tomich, San Marino, Cal., for plaintiffs and appellants.

Lawrence C. Brown, Faegre & Benson, Minneapolis, Minn., Leonard Janofsky, Paul, Hastings, Janofsky & Walker, Los Angeles, Cal., Douglas J. Williams, Merchant, Gould, Smith, Edell, Welter & Schmidt, Dwight H.

Oglesby, Minneapolis, Minn., for defendant-appellees.

Appeal from the United States District Court for the Central District of California.

Before CHAMBERS, ELY and WALLACE, Circuit Judges.

CHAMBERS, Circuit Judge:

This action was filed by Garter-Bare, a limited partnership, and by Larsen, its general partner, in California Superior Court on January 20, 1972, and was then removed to the United States District Court where summary judgment was rendered in favor of the defendant, Munsingwear. In Garter-Bare v. Munsingwear, 650 F.2d 975 (9th Cir. 1980), (hereafter "Garter-Bare I") we reversed the summary judgement on the ground that there were triable issues of fact that precluded its use. On remand,

the jury rendered its verdict for the plaintiffs granting them $3,000 for breach of contract, royalties (in an amount to be determined) of 7% for patent infringement, $500,000 for trade secret misappropriation, and $15 million compensatory damages and an additional $15 million as punitive damages, for fraud.

Munsingwear moved for judgment notwithstanding the verdict or for new trial and thereafter made a second motion for new trial, now alleging the discovery of new evidence. The district judge granted judgment n.o.v. as to all but the fraud claim, or a new trial if the judgment n.o.v. were overturned. He granted a new trial on the fraud claim, but thereafter granted summary judgment in favor of Munsingwear on the ground that the claim was barred by the California statute of

limitations (C.C.P. §338(4)). An interlocutory appeal from the final judgment (No. 82-5270) merged with an appeal from the final judgment (NO. 82-5439), after the order for summary judgment on the fraud issue had been entered. The complaint is stated in several claims. We will discuss them separately and, as we do so, the interrelationship of the claims will become self-evident.

Contact Claims

[1] Judgment n.o.v. was granted as to the claims founded on the written contract executed by the parties, on the basis that they were barred by the four-year statute of limitations under California law (C.C.P. §337(1)). The standard for reviewing judgments n.o.v. is the same with this Court as it is with distrct courts and it

applies not only to the contract claims, but to other claims raised by the complaint (see infra).

[2,3] Judgment n.o.v. is proper if the evidence permits of only one reasonable conclusion as to the verdict. California Computer Products v. International Business Machines Corp., 613 F.2d 727, 733 (9th Cir. 1979); Fountila v. Carter, 571 F.2d 487 (9th Cir. 1978). On appeal from judgment n.o.v., we view the evidence in a light most favoarable to the party against whom the motion is made. Shakey's Inc. v. Covalt, 704 F.2d 426, 430 (9th Cir. 1983); Kaplan v. Burroughs Corp., 611 F.2d 286, 290 (9th Cir. 1979). The key issue is that of the existence of substantial evidence to support the jury's verdict.

In their Agreement of July 9, 1965, the parties agreed to a three-phase program for

the commercial application of the Larsen process for a garterless device for supporting women's hoisery; a six-month research and development phase, followed by a two-year phase during which Munsingwear would have an exclusive license, followed by a third phase during which the parties would have proceeds from industry-wide licensing.

Executed contemporaneously with the Agreement, which by its terms said nothing about cancellation, was a First Amendment to the Agreement, providing such right to both parties. The provision giving Munsingwear this right stated that it might cancel:

> ...upon 90 days prior written notice to the license Garter-Bare; however, any and all royalties due and accruing to Garter-Bare at the cancellation date

shall be paid within 30 days of cancellation."

A Second Amendment extended the original six-month research and development phase for six months and provided for monthly payments of $1000 per month, "or said Agreement is terminated as provided for therein." The collaboration of the parties continued at times without any formal extension of the research and development period. But a Third Amendment was executed extending it for a six-month period, to expire on January 1, 1968, and its wording was substantially the same as the Second Amendment.

In Garter-Bare I, we held that disputed fact issues relating to the contract claims precluded pretrial summary judment based on the statute of limitations (C.C.P. §337(1)). At the trial, on remand, the

jury determined that a letter from Munsingwear on December 22, 1967, was accepted by Garter-Bare "as a termination of the agreement to pay the $1000 per month", but that Garter-Bare "retained its claims to the three monthly payments which it contends was [sic] due it." The jury also specifically found that the parties did not mutually intend the research and development phase to be extended beyond January 1, 1968.

[4] Given these findings as the intent of the parties we conclude, with the district judge, that the four-year statute of limitations began to run at least by December 22, 1967, or surely by January 1, 1968 when the first of the three disputed $1000 payments was not paid. In any event, by January 18, 1968, when Munsingwear

notified Garter-Bare that it intended to make no further payments.

In Garter-Bare I, 650 F.2d at 979, we unwisely did what we had chastised the district judge for doing, i.e., anticipating the jury on questions of fact. Our statement that C.C.P. §337(1) could not begin to run until the first payment was due and was not paid (which we stated would be thirty days after December 22), was not accurate and we retract it. The terms of the Agreement called for payment at the first of the month; this is what the parties agreed to. Therefore, the failure or refusal of Munsingwear to make the payment due on January 1, 1968, was of unquestionable significance in the factual history of the case. As the complaint was not filed until January 20, 1972, judgment n.o.v. was the appropriate action for the

district court to take on the issue of the claims based on written contract.

Patent Claims

The amended complaint claims infringement of the Larsen patent, namely his '748 patent for a process of making an effective single-layer garterless panty-girdle leg. At the time that the parties executed their Agreement, in 1965, Larsen warranted that the device that he was disclosing to Munsingwear either was, or would be, covered by patents. The process referred to at that time was for a double-layer cuff on the girdle leg. The jury accepted his contention that the parties "by their conduct mutually intended that the research and development program be extended to include the single-layer garment." There is substantial evidence to support their findings on this issue. The jury also held that Larsen's single layer patent,

thereafter obtained as '748 was valid and that it had been infringed by Munsingwear.

[5,6] The district judge granted judgment n.o.v. on the ground of the obviousness of the '748 patent, accepting the jury verdict as advisory only, and as was his right exercising the duty to determine the issue of obviousness as a matter of law. Appellants appropriately concede that obviousness is a question of law for the court. Sarkisian v. Winn-Proof Corp., 688 F.2d 647, 651 (9th Cir. 1982), cert. denied sub nom. Carsonite International Corp. v. Carson Mfg. Co., ___ U.S. ___, 103 S.Ct. 1499, 75 L.Ed.2d 930 (1983). However, they contend that the district judge did not review the Larsen patent claims against the standard set by Graham v. John Deere Co., 383 U.S. 1, 17 86 S. Ct. 684, 693, 15 L.ED.2d 545 (1966), i.e., by

considering 1) the scope and content of the prior art, and 2) the differences between the prior art and the claims at issue, and 3) the level of ordinary skill in the art. We must reject their argument on this score. The district judge held that the claimed patentable aspects of the '748 device were not novel and that Larsen had not produced anything beyond the ordinary skill in the art, but rather that his claimed novelty was reflected in two patents that had not been before the patent examiner. We cannot say on this record that the district judge's conclusions were clearly erroneous. F.R. Civ.P. 52(a); Sarkisian w, winn-Proof Corp., supra, at 651. The judgment n.o.v. on this issue is affirmed; the jury's award of royalties based ont he claimed infringement of the '748 patient is reversed.

Fraud Claims:

The jury awarded Garter-Bare $15 million as compensatory damages for Munsingwear's fraud and also awarded Gartre-Bare a further $15 million as punitive damages. The district judge granted a new trial on the ground that the patent was not valid and the jury's consideration of the faud issues was contaminated by its reliance on the supposed validity of the '748 patent.

The jury had also specifically found that the complaint, filed on January 22, 1972, was timely-filled insofar as the statute of limitations for fraud (C.C.P. §338(4)) was concerned.

That statute provides for a three year period for fraud, or mistake but:

> The cause of action in such case [is] not deemed to have accrued until the

discovery, by the aggrieved party, of the facts constituting the fraud or mistake.

In the Garter-Bare I, 650 F.2d at 981, we stated the test that is applied in California as "when a reasonably prudent person would have had such knowledge as to put him on injury." Hobart v. Hobart Estate Co., 26 Cal.2d 412, 437, 159 P.2d 958 (1945). We also there held that pretrial summary judgment was improper as to the issue of the statute of limitations for graud, as disputed questions of fact, or facts susceptible of opposing inferences are tried by the jury and disputed questions of fact existed in the case.

At the trial, the jury specifically found that the complaint, filed on January 22, 1972, was timely insofar as the fraud claims were concerned. The jury responded

"No", to a special interrogatory asking:

> Do you find that Larsen had such information as would lead a reasonable man to suspect that Munsingwear was defrauding him more than three years before the commencement of this legal action?

On the motion for new trial, the district judge held that this finding was "contrary to the great weight of the evidence" and granted the new trial. Later, following the receipt of "new evidence" offered in support of Munsingwear's motion for new trial, he granted Muynsingwear's post-trial motion for summary judgment on the basis that the matter was barred by the applicable statute of limitations.

Garter-Bare argues that the evidence is not "new", and perhaps more important, it

argues that it is not material and is not of a quality to permit the district judge to overturn the jury's findings on the issue of the statute of limitations. The materiality contention is one that demands close review.

Evidence that was in the record before us in Garter-Bare I is summarized in that opinion. At the trial the jury was aware of that evidence, including evidence of Larsen's communications with his attorney Mr. Burum, in the final weeks of December 1967 and during January 1968, after Munsingwear, by its letter of December 22, 1967, announced that it "did not wish to review" the Agreement beyond the final date (January 1, 1968) of the last extension of the research and development period.

The jury also had before it testimony from Mr. Larsen that during 1968, he had

consulted Mr. Burum and also his patent attorney, Mr. Wallen. He also testified that he had consulted with Mr. Graham Sterling whom he described in his testimony as being not only an attorney, but a member of the Board of Trustees of Occidental College, where Larsen had several friends on the faculty or in the administration. He also testified that he had consulted two other patent attorneys. One of them, Robert Parker, was also a friend whom he knew through Occidental College.

The jury was also aware that around December 22, 1978, Larsen obtained knowledge of an advertsement in Women's Wear Daily announcing Munsingwear's intended release for merchandising of new styles in its Vassarette line of girdles. Several ads are in the record, many of them showing a woman dressed in street clothing

the written portions of the ads stress that the new garterless styles eliminated bulges caused by garters and permit a smoother contour in the woman's outer clothing. One ad shows a woman dressed in a girdle, but there is not way of determining from a study of the ad whether it is, for instance, a double-layer leg (which had been merchandised in various forms before) or a single-layer leg. Moreover, there was nothing in the picture that would disclose the type of friction element. The ads speak of a "stocking locking" girdle with "soft stretch knit" and speak of the legs of the girdle locking the stocking leg in place. One speaks of "ripples of foam" but, again, this is totally inadequate to give notice of the technical nature of the friction element.

Larsen testified that he could not determine if the advertised styles encomapssed his ideas. His attorney advised him that it would be necessary to obtain a garment, and study it, in order to determine if there were any patent infringement. A specimen girdle was obtained on January 22, 1969, within the three-year period predating the filing of the complaint.

Larsen's examination of the girdle led him to conclude that his ideas had been used, but he also noticed a label indicating that the garment was protected by a patent or patent pending. His inquiry to Munsingwear, asking for clarification, produced a letter dated January 22, 1969, from Mynsingwear's attorney stating that he had "no knowledge of any Patents or Patent Applications containing allowed claims that would cover style No's. 888 and 988."

Larsen's single layer patent application was then before the Patent Office and Larsen stated that he considered that he was being invited to follow through on theat application and this "make good" on the warranty language in his Agreement with Munsingwear, stating that patent protection would be available on the inventions covered by that Agreement.

In the spring of 1970 Larsen learned for the first time that Connie Cuozzi, hired by Munsingwear in May 1967, had applied for a patent applicable to styles 888 and 988 in February 1969 (thus within of the date of the letter advising of no knowledge of any patent applications). Garter-Bare's attorney argued to the jury that there was no notice of any fradulent activity (as opposed to conduct related to breach of contract or patent infringement)

prior to the time Larsen obtained knowledge of the Cuozzi patyent or, at the very earliest, when the specimen garment was obtained for inspection. We must assume, on this record, that the jury agreed and this its agreement is reflected in its finding that the fraud issues were not barred by the reasonable person standard of the statute of limitations.

The materiality of the "new evidence" offered on Munsingwear's motion for new trial is put squarely in issue. That evidence consisted of the deposition testimony of Dr. Richard Gilman of occidental College, to whom Larsen had gone in November 1967 seeking financial help in anticipated litigation, presumably with Munsingwear. It was Gilman who advised Larsen to consult with Graham Sterling. Gilman's testimony as to Larsen's

conversations at that time were not protected by the attorney-client privilege that had precluded discovery of, or testimony by, Steling himself.

On this record, we cannot accept Munsingwear's position that the post-trial evidence offered at to Gilman's recollection was material so as to permit summary judgment in its favor. Gilman's testimony indicates that the only topics considered at this time were Garter-Bare's contract and patent rights. Indeed, Munsingwear has conceded that Sterling gave no advice or counsel as to fraud. Gilman states only that Larsen came to him seeking financial assistance for litigation and "patent rights and a patent situation was the central issue". Gilman recommended that Larsen see Sterling because of the latter's association with Occidental

College and his experience in "corporate law and contracts". Larsen stated at that time that he believed Munsingwear was about to manufacture or had manufactured a fabric that "utilized his patent rights and processes" and he believed he was entitled to damages or royalties "but he needed clarification of some particulars relating to that contract." Gilman understood that Sterling's function would be to examine the contract. After the meeting with with Sterling, Larsen reported to Gilman. Gilman testified he understood from him conversation that Larsen believed he had "sound and solid patent protection and a firm and envorceable contract." Gilman's testimony in his deposition was that Larsen's interest was in obtaining "royalties or indemnity" against Munsingwear; he spoke of Larsen's claim

regarding his "patent rights and royalties". The litigation that was contemplated, as Gilman reported it, was "for patent infringement."

It is Munsingwear's position that a reasonably prudent person would, of necessity, be put on notice of the neeed for injury into its fradulent activity, by the very nature of the notice that Garter-Bare had as to Munsingwear's breach of contract and patent infringement. Indeed, Munsingwear attempts to support the summary judgment in its favor, on the ground that no other conclusion is possible using the reasonably prudent person test of C.C.P. §338(4). We have grave difficulty with this assumption that notice of contract breach or notice of patent infringement constitutes, at law, notice of any fraud perpetrated by the defendant. No

authority offered by Munsingwear supports its contention that notice of the violation of one's contract or patent rights triggers a duty to inquire as to possible fraud under the reasonable person notice requirements of C.C.P. §338(4). We note, in passing, that if Munsingwear's contention were accepted, the notice provisions of C.C.P. §338(4) would supersede, and all but destroy, the absolute four-year limitation period for actions based on written contract (C.C.P. §337) whenever it might appear that any fraudlent motive or interest underlay the breach.

[7,8] We are left with the same test as we announced in Garter-Bare I, 650 F.2d at 979, that disputed factual issues are within the province of the trier of fact. The jury under instructions that neither

part attacks, considered the question of the statute of limitations for fraud, and the evidence of Larsen's contacts with attorneys, and his knowledge of the Women's Wear Daily advertisement. The Gilman deposition testimony is wholly consistent with the position of Garter-Bare that there was nothing sufficient to put a reasonably prudent person on notice of fraud in the weeks and months prior to January 20, 1969. The Gilman evidence neither permitted, nor compelled, summary judment for the defendant.

The district court's order for new trial as to the fraud claim must, however, be affirmed. The very high damages awarded for the fraud (1$15 million compensatory and $15 million punitive) have been acknowledged by all as an extremely liberal award and we have no difficulty affirming

the grant of a new trial as to the damages. The closer question is whether a new trial is warranted on the issue of liability. The scale tips in favor of the district judge's evaluation of the interrelationship of the various claims and the potential impact on the fraud verdict of the jury's assumption that the Larsen '948 patent was valid. We therefore also affirm a new trial as to liability on this claim.

Trade Secret Claims

In response to special interrogatories put to them on the special verdict, the jury found five areas in which Munsingwear infringed trade secrets given in confidence by Larsen. The five trade secrets found by the jury were:

1. The preferred operating conditions for the Larsen experimental machine described in the letter by Knut

Larsen to Richard Thistlethwaite of December 13, 1965.

2. The information that plastiseal HC111 acquired from Carum Latex had proven to work on the Spandex and the experimental machine to produce the samples already made.
3. The fact that an industrial-type glue gun can be made to act as a plastiseal extruder in the process.
4. The source of the Fox Argo glue gun which worked.
5. The removal of residual oil on the Spandex was important to maintaining adhesion of the plastiseal.

The immediate issue is that of the propriety of the judgment n.o.v. in favor of the defendant as to these five instances of alleged trade secret infringement. The

standard here, as before (see supra), is that of substantial evidence to support the jury's findings.

[9] California follows the Restatement (First) of Torts, §757, in its definition of a trade secret. Chicago Lock Co. v. Fanberg, 676 F.2d 400, 404 (9th Circ.1982); Forro Precision, Inc. v. International Business Machines, 673 F.2d 1045, 1057 (9th Circ.1982); Sinclair v. Aquarius Electronics, Inc., 42 Cal.App.3d 216, 116 Cal.Rptr. 654, 658 (1974).

Section 757 states:

> One who discloses or uses another's trade secret, without a privilege to do so, is liable to to other if
>
> (a) he discovered the secret by improper means, or
>
> (b) his disclosure or use constitutes a breach of

> confidence resposed in him by the other in disclosing the secret to him, or...

The instructions that were given without objection, and are not attacked on appeal, reiterate the definition of Section 757 and of a Comment following it, including specific statements as to the necessity for, and conditions of, the secrecy of the information. The jury was appropriately instructed as to the secrecy of certain information imparted to the defendant by the plaintiff prior to the issuance of the plaintiff's patents. The jury was also instructed,

> The subject matter of a trade secret must be secret. Whether such a degree of secrecy existed in a particular case is a question of fact for you, the jury, to decide, It is not negated

because one, by an expenditure of effort, might have collected the same information from sources available to the public...

The district judge, in his opinion granting judgment n.o.v. discusses the five trade secrets found by the jury to be finfringed and stresses that the plaintiff had not proved the secrecy of the information comprising the five trade secrets. He states that matters of public knowledge or general knowledge in industry cannot be appropriated by one as his secret returning repeatedly, in his opinion, to plaintiff's failure to demonstrate that the information was not known generally in the industry. Thus, the judgment n.o.v. is supported by the district judge's view of the evidence in the light of the assumed burden of proof of the plaintiff to prove

secrecy. With this we have difficulty given this history of the parties working in the research and development of Larsen's device, the cancellation of their Argreement by Munsingwear allegedly because it had discontinued interest in the ideas and the product for lack of commercial potential, and the almost immediate development of the ideas and the product -- resulting in the merchandizing of the girdles and the obtaining of the Cuozzi patent which Munsingwear admits was in all relevant respects the same as the Larsen '748 patent which predated it.

[10] On this record we find substantial evidence that Larsen did possess valuable secrets which he disclosed confidentially to Munsingwear pursuant to their agreement, prior to the issuance of his patents. On this record we find

substantial evidence that Munsingwear mechandised a garment that was very closely similar to the Larsen process. This being so, the burden shifted to Munsingwear to show that.

> at the time, it could have arrived at the process by independent invention, inspection, or reverse engineering.

Henry Hope X-Ray Products, Inc. v. Marron Carrel, 674 F.2d 1336, 1341 (99th Cir. 1982), quoting from greenberg v. Croydon Plastics Co., Inc., 378 F. Supp. 806, 815 (E.D. Pa. 1974).

This shift of burden is of importance in this case. The district judge, in support of his judgment n.o.v. noted that there was "undisputed evidence" that the defendant never used H-111-C plastisol and that if did not use the Fox Aro glue extruder. The evidence in the record can

be read as supporting a contrary conclusion. There is substantial use of Munsingwear's interest in, study of, and work with, the trade secret information found to be such by the jurors, giving the jurors' verdicts the benefits of the presuptions to which they are entitled on a review of judment n.o.v. "Use" during the contractual research and development period may, on this record, be deemed to have extended into Munsingwear's "use" of it in the period that followed its notice that it was abandoning the project. Once again, the interrelationship of one count with another, a factor which the district judge himself noted, makes it impossible as to these trade secret claims, to disregard the pleading and evidence from which the jurors might have found the existence of a confidential relationship, a fradulent

motive in the timing and notice of Munsingwear's "abandonment" of the project, and the continued use of Larsen's information and ideas in the so-called Cuozzi process which Minsingwear actively developed in the Post-"abandonment" period.

The state of the record is such that judgment n.o.v. cannot be affirmed as to the five trade secret claims. At the same time, the alternative order for new trial cannot be overturned on this record. Given the interwoven nature of the claims and the exceptionally high damages, a new trial is appropriate as to liability and as to damages on the trade secret claims.

Appellee contends on appeal that judgment n.o.v. might be sustained on the ground that these trade secret claims are barred by the two-year statute of limitations for claims based on oral

contract (C.C.P. §339) or the three-year statute of limitations for claims based on oral contract (C.C.P. §339) or the three-year statute of limitations for fraud (C.C.P. § 338(4)). The district court judge did not base his judgment n.o.v. on this ground and we, likewise, refrain from doing so. Garter-Bare contends that that gravamen of the trade secret claims is fraud, and as we have noted, there are heavy fraud overtones in the pleading and in the evidence Garter-Bare sought to produce. If there are fact issues to be determined as to applicability of the statute of limitations to the trade secret claims, inquiry may be made by the trier of fact, on retrial. Claims for tortious interference with prospective business advantages:

[11] The jury awarded Garter-Bare $500,000 on its claims that Munsingwear was guility of unfair competition under California tort law. This court has recognized the California tort as requiring the plaintiff to establish:

[11] The jury awarded Garter-Bare $500,000 on its claims that Munsingwear was guilty of unfair competition under California tort law. This court has recognized the California tort as requiring the plaintiff to establish:

(1) the existence of a special economic relationship between appellants and third parties that may economically benefit appellants;

(2) knowledge by the appelles of this relationship;

(3) intentional acts by the appellees designed to disrupt the relationship;

(4) actual disruption of the relationship; and

(5) damages to the appellants. Rickards v. Canine Eye Registration Foundation, Inc., 704 F.2d 1449, 1456 (th Cir. 1983), citing Buckaloo v. Johnson, 14 Cal.3d 815, 827, 537 P.2d 865, 872, 122 Cal.Rptr. 745, 752 (1975). It is also essential that "some identifiable pecuniary or economic benefit must accrue to appellees that formerly accrued to appellants." Id. 704 F.2d at 1456.

[12] The district judge granted summary judgment holding the the invalidity of the Larsen '745 patent, "plaintiff's potential for economic benefit derived from the licensing and sale of its product is limited to competing in the marketplace

with a product whose concept lies wholly within the public domain." He held that the obtaining of the Cuozzi patent and its later dedication to the public caused no tortious interference with plaintiff's prospective business. Moreover, he held that there was no showing of damage as there was no evidence to show that any manufacturer declined to contract with Garter-Bare because of the fear of a battle with Munsingwear.

Garter-Bare responds that evidence of Garter-Bare's efforts to delay the filing of the Larsen patent application on the single-layer garment, added to its announced abandonment of the research and development under its agreement with Garter-Bare, added to its simultaneous development of the so-called Cuozzi process and the obtaining of a patent by its

employee Cuozzi, followed by its very successful merchandising of the girdle styles incorporating the so-called Cuozzi process, lead to inevitable inferences of damage to Garter-Bare's ability to enter into any other profitable relationships for the commercial exploitation of the Larsen process. Garter-Bare points to the reality of "one of the giants of the garment industry" merchandising a garment under its own patent which, in essential respects is identical to the Larsen patent. (Munsingwear at oral argument admitted that the Cuozzi patent was anticipated by the Larsen patent). Was this evidence such that the jury might infer tortious interference with Larsen's ability to obtain any successful commercial advantages with others in the garment industry? Applying the traditional standard to a

judgement n.o.v., as to this issue, we must come down on the side of the party against whom the judgment was rendered. The advantage flowing to one who causes tortious unfair competition may be either pecuniary or competitive. DeVoto v. Pacific Fidelity Life Ins. Co., 618 F.2d 1340, 1348 (9th Cir. 1980). We cannot overlook the evidence in this record of Munsingwear's competitive advantage seen particularly in the context of the specific acts which Garter/Bare alleged, and the jury obviously believed, were fraudulent acts.

While we reverse the judgment n.o.v. as to this tort claim we are, once again, persuaded that the alternative grant of a new trial on this issue should not be disturbed. As noted earlier, the new trial as to damages seems required. A new trial

as to liability presents a closer question, but the district court's concern with the possible impact of the assumed validity of the '748 patent cannot be ignored. The order for new trial is therefore affirmed.

Summary:

This case has consumed the energy and emotion of the parties and of the court for nearly fourteen years. The expense caused by this protracted litigation is manifest. It is a case that should be settled, and settled promptly, giving realistic and concrete attention to each party's vulnerability and each party's strength. it is not a time for either side to opt for further gambling. It is a time for a termination of the litigation through realistic compromise and settlement.

In summary, we affirm the judgment n.o.v. as to the claims based on patent.

Solely on the ground of the bar of the statute of limitations, we affirm the judgment n.o.v. as to the contract claims. We reverse summary judgment as to the fraud claims, but affirm the grant of a new trial as to both liability and damages as to those cliams. We reverse judgment n.o.v. as to the claims based on tortious interference with prospective business advantage and on misappropriation of trade secrets but affiirm the grant of a new trial as to both liability and damages as to those claims.[1]

Reverse in part and affirmed in part and remanded for further proceedings.

ELY, Circuit Judge, dissenting in part:

I respectfully dissent from the portion of the majority opinion that reverses the District Court quickly and decisively corrected. The record reveals that the

plaintiffs fashioned this complex action, adorned with allegations of fraud, trade secret misappropriation, patent infringement and tortious interference, from a simple $3000.00 contract dispute

1. There is pending before us a motion to strike all or portions of appellants' opening brief as excessive under our rules. Much of the material contained in the appendices is merely a reproduction of material in the record but permission of the court should have been obtained. We grant the motion as to the material in the various appendices. We deny the motion as to the material contained in the brief proper, i.e., contained in the pages ending at page 72. over the

interpretation of the agreement and a claim of patent infringment. The jury, their collective vision blurred by a smokescreen of nonexistent torts and plaintiffs' pleas for sympathy, overlooked the crucial points and awarded an outrageous and unsupportable verdict in excess of $31,000,000.00, a sum equal to nearly 80% of Munsingwear's 1979

total net worth. Unlike the jury's verdict, the District Court's rulings on Munsingwear's motions for judgment notwithstanding the verdict ("judgment n.o.v."), and post-trial motion for summary judgment on plaintiffs' fraud claim, were squarely based upon the applicable law and the evidence and should be affirmed.

FRAUD CLAIM:

It is my view that the District Court correctly held that the plaintiffs' claim for fraud was barred by the applicable statute of limitations.

To determine this issue on summary judgment requires undisputed material facts which leave the inference that a "reasonably prudent person" would have had such knowledge as to put him on "inquiry" more than three years prior to the filing of the complaint. Garter-Bare Co. v.

Munsingwear, Inc., 650 F.2d 975, 981 (9th Cir. 1980) (Garter-Bare I). See also Von Brimer v. Whirlpool Corp., 536 F.2d 838, 848-49 (9th Cir.1976); Turner v. Lundquist, 377 F.2d 44, 46-48 (9th Cir.1967). Such a finding requires the emphasis of two general legal propositions. First, we have held that section 338(4) of the California Code of Civil Procedure establishes an objective "reasonably prudent person" standard for determining when the statute of limitations begins to run. A plaintiff's personal uncertainty about, or mere failure to discover all the facts of the existence of, a fraud claim is immaterial. See Von Brimer, 536 F.2d at 848; Lundquist, 377 F.2d at 47-48. Second, once "inquiry," upon notice of sufficient facts indicating possible fraud is triggered, "a plaintif will be deemed to

have knowledge of facts which would have been disclosed in a more extensive investigation." Briskin v. Ernst & Ernst, 589 F.2d 1363, 1367 (9th Cir.1978); Von Brimer, 536 F.2d at 848.

From a review of the record upon which the District Court granted Munsingwear's post-trial motion for summary judgment, I cannot escape the conclusion that a reasonably prudent person would have had knowledge of facts sufficient to make him suspicious of fraud, thus putting him on inquiry. This conclusion is supported by the following material facts:

One, by mid-December 1968, Larsen obtained a copy of a Munsingwear publication containing a color photograph of a woman wearing a 988 style girlde. Upon inspection, Larsen become "concerned that [he] had been deceived and mislead

[sic] by ...Munsingwear." Unlike my Brothers, I equate deception with fraud. In fact, Black's Law Dictionary defines "deceit" as "a fradulent or cheating misrepresentation..." Black's Law Dictionary 493 (rev. 4th ed. 1951) (emphasis added).

Two, by mid-December 1968, Larsen concluded that Munsingwear's 988 girdle was a 'violation of Garter-Bare's rights." "From [its] appearance ... [23] deducted [sic] that there must be something there, where it refers to no garters, ... our secret combination to foam ripples and exclusive stay there, and then particularly to foam ripples. We deducted [sic] that it had to do with the plastisol and the friction principle that had been disclosed to Munsingwear." Upon learning these facts, Larsen began to search for the

actual girdle displayed in the photograph. Larsen also made inquirires to his lawyers, Burum and Wallen, and discussed with them the possibility of suing Munsingwear.

Three, in late November 1968, Larsen told Dr. Richard Gilman, President of Occidental College, that Munsingwear was "planning to market very shortly a product using [Larsen's] elastic fabric." Larsen also contacted Gilman in an effort to have Occidental College "participate in this [Larsen's] legal expenditures, in turn for certain payments [which] would be made to the college upon success of his litigation" against Munsingwear.

On December 13, 1968, Larsen told Gilman that: "The whole picture was 'very clear' to him, and that it was 'most important' to move right away to pursue matters with or against Munsingwear for

royalties or indemnity, as the case might be."

On December 23, 1968, Larsen's attorney Burum notified Munsingwear that his client had learned that Munsingwear was about to introduce a garterless girdle "which appeared[ed] to be a direct result of the ...[Agreement."

Four, by letter dated December 22, 1967, Munsingwear notified the plaintiffs that Munsingwear "does not wish to renew the Agreement..." Burum, by letters dated January 2 and 17, 1968, twice acknowledged that Munsingwear's letter-notice effected a cancellation of the contract. Although this event certainly did not cause the three-year fraud statue of limitations to begin, it did effectively put Burum and Garter-Bare on notice that any future employment of their designs by Munsingwear

would constitute substantial grounds for suspecting fraud.

This cumulation of undisputed pre-trial, trial, and post-trial evidence leaves the inferences that a reasonably prudent person" would have been on inquiry as of December 1968 that Munsingwear was marketing a device that plaintiffs believed was the "direct result" of the Agreement. Plaintiffs admit that they "made an inquiry on December 23, 1968, to the President of Munsingwear . . . ." This admission, in addition to the above undisputed facts, convinced the District Court that the statutue of limitations began running before the end of 1968. I am firmly convinced that his conclusion was legally correct.

The majority, in reaching its conclusion, has "grave difficulty with

[the] assumption that notice of contract breach or notice of patent infringement constitutes, at law, notice of any fraud perpetrated by the defendant." The majority further asserts that "[n]o authority offered by Munsingwear supports its contention that notice of the violation of one's contract rights or patent rights triggers a duty to inquire as to possible fraud under the reasonable person notice requirements as C.C.P.§ 338(4)." Such reasoning misses the mark. It is knowledge of facts, not precise legal theories, that triggers inquiry and the running of the statute. See Bedolla v. Logan & Frazer, 52 Cal.App.3d 118, 130 & n. 10, 125 Cal.Rptr. 59, 68 & n. 10 (1975). The salient point is that by mid-December 1968, a reasonably prudent person would have been on inquiry notice of the essential facts comprising

plaintiffs' fraud claim. These facts, in these circumstances, also constituted notice of contract breach or notice of patent infringment; however, the "dual nature" of these facts should not, and does not, invalidate the conclusion that a reasonably prudent person would have had knowledge to make him suspicious of fraud, thus putting him on inquiry.

TRADE SECRET CLAIMS:

On appeal from the judgment n.o.v., the key issue for our review is whether the plaintiffs have presented substantial evidence to support the jury's verdict. See California Computer Products v. International Business Machines, 613 F.2d 727, 733-34 (9th Cir.1979).

The majority correctly points out that Munsingwear contends on appeal that the judgment n.o.v. on this issue might be

sustained on the ground that the trade secret claims are barred by the two-year statute of limitations for claims based on oral contract, Cal.Civ.Proc.Code § 339 (West 1982), or the three-year statute of limitations for fraud, id. at [338(4). Munsingwear also made this argument to the District Court, but the District Court did not base its judgment n.o.v. on this ground. Nonetheless, plaintiffs conceded that the gravamen of the trade secret claims is fraud, and as the majority notes, there are heavy fraud overtones in the pleading and in the evidence plaintiffs sought to product. This being so, I would affirm the judgment n.o.v. on the ground that the statute of limitations for fraud bars the trade secret claims, for the reasons I have above set forth in respect to the fraud claim.

Even if one reaches the merits, plaintiffs' trade secret claims must fail because, as the District court correctly concluded, there is no substantial evidence that the five claimed trade secrets either were legally protectable secrets or were used by Munsingwear.

First plaintiffs failed to show that the "preferred operating conditions" of Larsen's machine were not matters of general knoweldge or that it would have been difficult to acquire this information except through improper means. See Clark v. Bunker, 453 F.2d 1006, 1009-10 & n. 5 (9th Cir.1972). To the contrary, the evidence establishes that, for many years prior to any work by Larsen, plastisol or latex had been applied to fabrics and subsequently cured by passing them through ovens. Indeed, a patent issued in 1959

(U.S. Patent No. 2,893,315) shows an operation for applying elastomeric friction elements in the form of latex dots to glove fabric in a manner nearly identical in operation to that of Larsen's machine. Nor is there any substantial evidence that Munsingwear used the knowledge of the "preferred operating conditions" subsequent to the termination of the research and development period.

Second, as the District Court correctly observed, H-111-C was obtained from Caram Latex--"a commercial supplier of a variety of products freely available in the marketplace"--and Larsen did not select the product at all. Instead, Larsen simply described to Caram Latex a result he wished to obtain, and Caram Latex selected the specific product that it believed would accomplish the task. As the District Court

correctly noted, "anyone making the same request would have been supplied the same product." The evidence also establishes that plastisols were being applied to fabrics, cured on fabrics in ovens, and used in a variety of ways, including as friction elements, long before Larsen did any work in this area, let alone shared his "knowledge" with Munsingwear. On this record, the H-111-C information simply did not rise to the level of a legally "protectable trade secret." See id.

Third, plaintiffs failed to produce evidence that either the fact that an industrial-type glue gun could be made to act as a plastisol extruder or that Fox Aro Company was a source of such a gun were secret, were not generally known, and would have been information difficult to obtain except by improper means. See id. The

plastisol applying heads used with Munsingwear's machine were designed and manufactured by Munsingwear personnel. And, as the District Court correctly observed, there was no evidence that it was not generally known in the industry that a "glue-gun" could be made to act as an extruder for materials including plastisols. On the evidence produced at trial, the District Court was correct in concluding that there was no substantial evidence to establish either that the "glue-gun" information constituted a "protectable trade secret" or that Munsingwear used a Fox Aro glue extruder subsequent to the research and development period.

Fourth, plaintiffs simply did not produce any evidence either that the cleaning of residual oil from spandex was

not generally known in the industry or that Munsingwear used this information.

Finally, in reversing the District Court's judgment n.o.v., that majority states that the burden was shifted to Munsingwear to show that "at the time, it could have arrived at the process by independent invention, inspection, or reverse engineering." In so reasoning, the majority first concludes, without supporting its conclusion, that the plaintiffs have proved a crucial fact-the fact that the information at issue was indeed "secret." If I understand the law correctly, the burden is on the plaintiffs to show, without resort to presumptions of any kind, that the claimed trade secrets are "secret." See Frodge v. Untied States, 180 U.S.P.A.583, 587 & n. 3 (Ct.Cl.1974). The plaintiffs simply have not produced

substantial evidence to support such a conclusion. The District Court was correct in granting the judgment n.o.v. as to the trade secret claims.

CLAIMS FOR TORTIOUS INTERFERENCE WITH PROSPECTIVE BUSINESS ADVANTAGE.

As with the trade secret claims, the key issue for our review is whether there is substantial evidence to support the jury's verdict. See California Computer Products, 613 F.2d at 733-34.

Plaintiffs allege that Munsingwear's acts lead to "inevitable inferences of damage" to plaintiffs' ability to enter into profitable relationships for the commercial exploitation of the Larsen process. In reversing the District Court's judgment n.o.v., the majority relies on evidence in the record of Munsingwear's "competitive advantage" seen "in the

context" of allegedly fraudulent acts. As to the evidence of Munsingwear's competitive advantage, I have little disagreement. Munsingwear is indeed "one of the giants of the garment industry." The point at which I must part company with the majority hinges on the question it does not ask insistently enough: Did the plaintiffs present substantial evidence that they were deprived by Munsingwear of any probable beneficial economic relationship or that they sustained any approximately caused damage? This question must be answered in the negative. Viewing the evidence of Munsingwear's obvious competitive advantage "in the context" of alledgedly fraudulent acts does not mask the fact that plaintiffs simply have not produced substantial evidence of the elements of their claim.

Plaintiffs have not produced a single reasonably probable "profitable relationship for the commercial exploitation of the Larsen process" that they could have entered into but for Munsingwear's acts. Plaintiffs attempted unsuccessfully to license the '748 patent to 43 companies. Yet plaintiffs produced no evidence that any of the 43 companies they contacted ever refused a license due to any act of Munsingwear. There is no evidence that Munsingwear did anything to cause such universally negative responses to plaintiffs' atrtempts to license the '748 patent. The obtaining of the anticipated Cuozzi patent was not enough. There is no substantial evidence that the mere issuance of the Cuozzi patent "interfered" with plaintiffs' licensing opportunities in any way. Thus, there is

no substantial evidence that Munsingwear's acts proximately caused any particularized damage to plaintiffs. This being so, I would affirm the District Court's judgment n.o.v. as to this issue.

CONCLUSION:

As the majority aptly points out this case has consumed the energy and emotion of the parties and of the court for nearly fourteen years. And, as the majority states, the expense cassed by this protracted litigation is indeed manifest. This Court now has the opportunity to bring a just and proper end to the litigation. Yet, the majority unwisely elects instead to grant a new trial on three of plaintiffs' claims. I sincerely believe that the plaintiffs have had a full and fair opportunity to presecute their claims and have failed in that attempt by not

presenting substantial evidence to support those claims. The District Court's judgments should be affirmed in all respects.

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

GARTER-BAR COMPANY, an unincorporated association a limited partnership), and KNUT L. BJORN LARSEN, Plaintiffs and Appellants, vs. MUNSINGWEAR INC., a corporation, et al., Defendants and Appellees.	Nos. 82-5270 and 82-5439 Order Denying Petition for Rehearing

Before: CHAMBERS, ELY AND WALLACE, Circuit Judges.

Appellants' petition for rehearing is denied.

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

GARTER-BAR COMPANY, etc., et al.,	)Nos. 82-5270) 82-5439
Plaintiffs-Appellants,	)
vs.	)DC# CF) 73-1911 JWC)Central)California
MUNSINGWEAR, INC., etc., et al.,	)
Defendants-Appellees.	) O R D E R

The mandate, having issued in error by the Clerk, is recalled pending disposition of the appellees' petition for rehearing en banc.

FOR THE COURT:

PHILLIP B. WINBERRY
Clerk of Court

By: _____

Cathy A. Catterson
Chief Deputy Clerk

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

GARTER-BARE COMPANY, an unincorporated association a limited partnership), and KNUT L. BJORN LARSEN, Plaintiffs and Appellants, vs. MUNSINGWEAR INC., a corporation, et al., Defendants and Appellees.	Nos. 82-5270 and 82-5439 Order Denying Petition for Rehearing

Before: CHAMBERS, ELY AND WALLACE, Circuit Judges.

Judges Chambers and Wallace have voted to deny appellees petition for rehearing. Judge Wallace has voted to reject the suggestion for rehearing en banc and Judge Chambers recommends such rejection. Judge Ely has voted to grant the appellees'

petition for rehearing and recommends that the suggestion for rehearing en banc be adopted.

The full court has been advised of the suggestion for en banc hearing, and no judge of the court has requested a vote on the suggestion for rehearing en bac. Fed. R. App. P. 35(b).

The petition for rehearing is defined, and the suggestion for a rehearing en banc in rejected.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

GARTER-BARE COMPANY, an unincorporated association, (a limited partnership), and KNUT L. BJORN-LARSEN	)	
Plaintiffs,	)	No. CV73-1911-JWC
v.	)	
	)	MEMORANDUM AND ORDER
MUNSINGWEAR, INC., a corporation, et al.,	)	
Defendants.	)	

The court has before it defendants' motion for judgment non obstante veredicto or, in the alternative, for a new trial. By this motion defendants seek to set aside a jury verdict against them awarding plaintiffs judgment in the sum of $31,003,000.00.

The case involves a controversy between the parties over the validity of plaintiffs patent of a lady's panty girdle and certain conduct on the part of the defendants which the plaintiffs contend violate the provisions of a written contract and constitute a breach of a fiduciary relationships.

Before discussing the merits of the case, a general statement of the facts is necessary.

FACTS

In April of 1963, the plaintiff Larsen conceived of certain improvements in women's girdle structures in which the conventional garter fasteners were replaced by a double cuff extension on each leg of the girdle, the inner surfaces of which were covered with an elastomeric material which gave frictional support to a woman's

hose when positioned over the inner flapand under the outer flap. Larsen applied for a patent on his double cuff girdle on December 23, 1963 pursuant to which a Letters Patent No. 3,253,599 was issued on May 31, 1966.

In April, 1965, the plaintiffs contacted the defendant Munsingwear with the intention of engaging in some arrangement for the commercial develop of Larsen's idea. As a result, the parties entered into an agreement on July 9, 1965, which, although extended several times, as amended was to expire according to its terms December 31, 1968.

In general, the agreement provided that a period of research and development would be conducted in order that Munsingwear might determine whether the girdle had a

commercial value. If Munsingwear determined that it did, it would have an exclusive license to sell the garment for a specified period of time on payment of a 5% royalty, and that the parties would thereafter own the patent and share equally in any licensing revenue. Munsingwear further agreed to pay Larsen the sum of $1,000.00 a month as an advance against royalties subject to Munsingwear's right to terminate the agreement by giving three months notice.

By letter dated December 22, 1967, Munsingwear gave notice of its intention not to extend the July, 1965 agreement as amended and refused to make any further payments of $1,000.00 to Larsen upon the theory that the agreement had expired according to its own terms and that no three months notice was required.

The plaintiff Larsen developed a further concept of this girdle structure which has been referred to throughout this litigation as a "single layer girdle." This concept consists of a single cuff of stretchable elastic fabric lined with elastomeric elements which overlie the top of the stocking, holding it in place by friction and pressure against the leg of the wearer. On January 12, 1967, Larsen applied for a patent on this "panty girdle and stocking support" for which he received a patent on November 18, 1969, patent No. 3,478,748.

Although Larsen subsequently obtained another patent on "a method of forming friction protrusions on elastic, open mesh garment fabric," it is the patent 3,478,748 which is the subject of this action.

In May, 1967, Munsingwear employed Concetta L. Cuozzi in their design department, who designed and ultimately patented a "single layer girdle," Patent No. 3,496,944. This patent was subsequently dedicated to the public domain.

Since no pretrial conference order was ever signed, no precise statement of the many issues raised by the pleadings appears in the record. However, the parties throughout the trial and in their moving papers now before the court have dealt almost exclusively with the following six issues:

1. The contractual issues involving the construction of the agreement of July 9, 1965, as amended;

2. The validity of plaintiffs' '748 patent;

3. Plaintiffs' trade secrets, and

their alleged misappropriation;

4. Defendants' conduct which plaintiffs allege to have been fraudulent, and whether plaintiffs' claim is barred by the statute of limitations;

5. Defendants' alleged unfair competition;

6. The appropriate measure of damages.

The jury returned a special form of verdict, which in general favored the plaintiffs and awarded both compensatory and punitive damages. Further details of the verdicts will appear in the discussion of the issues which follows.

BREACH OF CONTRACT

The first four counts in the complaint are based upon breach of contract and, in particular, the agreement of July 9, 1965, as amended. In count one plaintiffs claim

the letter of December 22, 1967 was not termination notice as required, so that the agreement to pay $1,000.00 a month advance royalty was never terminated. In count two plaintiffs contend that under the agreement they are entitled to 5% royalty on Munsingwear sales based upon the continuing existence of the agreement. In the third cause of action plaintiffs claim $1,000.00 a month for each of the months of January, February, and March, 1968, on the alternate theory that the agreement was effectually terminated by the letter dated December 22, 1967. In count four plaintiffs contend that, assuming the contract is still in effect, they are entitled to a one-half interest in the Cuozzi patent.

In special interrogatories furnished the jury, it found that the partiies did not mutually intend the research and

development period to be extended beyond January 1, 1968, and that although Garter-Bare accepted Munsingwear's letter of December 22, 1967 as a termination of the agreement to pay the $1,000.00 monthly royalties, they did not waive their claim to three months payments which continued to accrue. The net result was that the jury awarded the plaintiffs the sum of $3,000.00 as unpaid royalties.

This portion of the verdict cannot be sustained for, as a matter of law, it is barred by the statute of limitations. Cal. Civ. Proc. § 337 (1) provides that an action on a written contract must be brought within four years of the time of its accrual. The cause of action accrues when there is a remedy available. Barlow v. City Council of Inglewood, 32 CA. 2d 688, 197 P. 2d 721 (1948).

According to the undisputed evidence, on January 2, 1968, (Exhibit D 101), and again on January 17, 1968 (Exhibit D 102), Mr. Peter F. Burum, attorney for Garter-Bare, acknowledged Munsingwear's cancellation of the agreement of July 9, 1965, as amended, and asserted that a payment of Three Thousand Dollars ($3,000.00) royalty was due from Munsingwear to Garter-Bare for the months of January, February and March of 1968. On January 18, 1968 (Exhibit D 103), Mr. Alden M. Hanson, the Secretary-Treasurer of defendant, Munsingwear, notified Mr. Burum that Munsingwear did not believe any further royalty payments were due and that these royalty payments would not be paid.

It would appear, therefore, that plaintiffs' cause of action for breach of contract as it relates to the royalties,

accrued at least as early as January 18, 1968. Since this action was not filed until January 22, 1972, it was not brought within the period allowed by the statute. As to this issue, the verdict must be set aside and defendants are entitled to judgment thereon.

VALIDITY OF PATENT NO. 3,478,748

I shall next consider the issue of validity of the patent, since resolution of this issue will largely affect the remaining issues in the case.

The question here was whether Larsen's invention was obvious, for nonobviousness is an essential element of patentability.

The jury in its special verdict found the patent valid and awarded plaintiffs a royalty of 7%, presumably on all infringing articles sold. However, the question of whether or not an invention is obvious is a

conclusion of law for the court to decide. Sakraida v. Ag Pro, Inc., 425 U.S. 273,280 (1976) (the ultimate question of patent validity is a question of law); Graham v. John Deere Co., 383 U.S. 1, 17 (1966) (same); see also Bergman V. Aluminum Lock Shingle Corp. of America, 251 F.2d 801, 809 (9th Cir. 1957) (Pope, J. concurring).

In Graham v. John Deere Co., supra, the Supreme Court laid down a three-part factual analysis to use in the determination of the obviousness of an invention under section 103:

> Under § 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the

obviousness or nonobviousness of the subject matter is determined.

383 U.S. at 17.

To begin with, it would appear that the plaintiffs have the burden of proving nonoviousness. Since the most pertinent prior art is the French Patent Anthon 1,297,197 and the United States Patent Kleindienst 1,851,067, neither of which was before the patent examiner, the presumption of validity is overcome. Namirowski v. Nabisco, Inc., 421 F. Supp. 349 (N.D. Ill. 1976), Aff'd 567 F.2d 392 (7th Cir.), cert. denied, 435 U.S. 971 (1977).

The Anthon patent shows a panty girdle similar in all respects to that claimed by Larsen in his patent, except that it claims that the elastomeric friction elements are "attached," whereas, the Larsen claim refers to the elastomeric elements

"adhering." In Anthon the friction elements consisted of elastic threads or ribbions sewn onto the cuff; whereas, Larsen applied latex directly to the material where during the curing process it became imbedded in it. Plaintiffs' patent expert admitted that if the word "adhering" in the Larsen's claim one were changed to read "attached" every element of the claim would be found in the Anthon reference. Plaintiffs' argument for patentability of the '748 patent is directed not to a new girdle structure, but rather to the manner in which the elastomeric friction elements are attached to a fabric. The evidence shows without conflict that long before any work was done by Mr. Larsen, various plastisols, latexes, neoprenes, and other materials would be deposited on fabrics to produce elastomeric friction elements. The

Kleindienst patent teaches the application of latex to a faric to produce elastomeric friction elements. United States Reissue Patent Wells, et al., 22,167 (Exhibit 141), discloses forming friction elements on the fabric of a glove in such a manner that the portions of the fabric become imbedded in the friction elements. The '748 patent is directed to a combination of old elements which is patentable only when it produces an unusual and surprising result. Great Atlantic & pacific Tea Co. v. Supermarket Equip. Corp., 340 U.S. 147, 152 (1950). As plaintiffs' own expert witness admitted, if someone in 1962 had taken a latex and prepared as shown in the Kleindienst patent and substituted it for the rubber ribbon set forth in the Anthon patent, the resulting structure would have all the elements of both claims 1 and 6 of the '748 patent.

Considering the factual background of the Larsen patent in light of the teachings of Graham v. John Deere Co., I conclude that the invention is obvious, for in its creation Larsen has not produced anything beyond the ordinary skill in the art. Consequently, I hold that claims 1 and 6 of the '748 patent are invalid and the findings of the jury to the contrary must be set aside and judgment awarded to the defendants on this issue.

TRADE SECRETS

We next move to a consideration of the trade secrets. Of the many trade secrets claimed by the plaintiffs, the jury, by special verdict found the following to be trade secrets: (1) the preferred operating conditions for the Larsen experimental machine described in the letter by Larsen

to Richard Thistlethwaite of December 31, 1965; (2) the information that plastisol H-11-C acquired from Caram Latex had proven to work on the spandex, and the experimental machine to produce the samples already made; (3) the fact that an industrial type glue gun can be made to act as a plastisol extruder in the process; (4) the source of the Fox Aro gun which worked; and (5) that the removal of residual oil on the spandex was important to maintain adhesion of the plastisol. The jury found that these trade secrets were misappropriated and awarded judgment in favor of the plaintiffs in the sum of $500,000.00.

The jury's verdict on this aspect of the case cannot be supported by the evidence. California follows section 757 of the First Restatement of Torts which

requires the plaintiff to establish the following factual elements: (1) that he is the owner of a trade secret, (2) that defendant has discovered the trade secret by improper means or that his use of the trade secret constitutes a breach of confidence reposed in him by the plaintiff in disclosing the trade secret, (3) that defendant has used the trade secret, and (4) that plaintiff has been damaged. See Walker v. University Books, Inc., 602 F.2d 859 (9th Cir. 1979).

In the first place, a trade secret must be secret. Matters of public knowledge or general knowledge in industry cannot be appropriated by one as his secret. A substantial element of secrecy must exist so that except by the use of improper means there would be difficulty in acquiring the information. Id. at 865.

As to the preferred operating conditions of the Larsen machine, there was no showing that these were not matters of general knowledge in the industry or that it would be difficult to acquire this information except through improper means. To the contrary, the testimony indicated that the industry had for many years, prior to any work done by Mr. Larsen, applied plastisols by passing them through an oven. But more importantly, there was not evidence whatever to indicate that Munsiningwear had ever used the machine or its knowledge of the operating characteristics to produce any garment subsequent to the termination of the research and development program. In fact, the uncontradicted evidence is to the contrary.

As to the information that Caram LatexH-11-C plastisol would work, the evidence showed that Caram Latex is a commercial supplier of a variety of products freely available in the marketplace. Mr. Larsen indicated that he was not sure what it was but he thought it was polyvinylchloride because that was the term that Caram Latex used when they sent it to him. Furthermore, he did not select the product, he merely specified a result he wished to obtain, and Caram Latex selected the product which they felt would do the job. There is no indication but anyone making the same request would have been supplied the same product. Furthermore, the undisputed evidence is that the defendants never used H-11-C plastisol.

As for Fox Aro as a source of an industrial type glue gun which could be

used as a plastisol extruder, here again, there is an absence of evidence that such information was in any way secret and not generally known to the industry. The uncontradicted proof is that Munsingwear designed and manufactured its own extruder and did not use the Fox Aro product.

As to the residual oil removal to maintain adhesion of the plastisol, the record contains no evidence that this knowledge was not generally known in the industry and, furthermore, there is no evidence that Munsingwear ever used this information.

I hold, therefore, that the special verdicts of the jury holding these to be trade secrets must be set aside on the ground that such findings are wholly without evidentiary support, and that the

defendants are entitled to judgment on the issue of trade secrets.

FRAUD

Plaintiffs' claim of fraud was predicated to a large extent upon the validity of their patent and the misappropriation of their trade secrets. Having found in favor of the plaintiffs on these two issues, the jurors no doubt relied to some extent on these findings in reaching their conclusion with respect to the issue of fraud. Although there was some evidence upon which the jury could make such a finding separate and apart from any considerations of patent validity of trade secret misappropriation, it is impossible to tell the extent to which, if at all, the jury was influenced by the belief that the patent was valid and the trade secrets were misappropriated. Under

these circumstances, it would appear that a new trial is necessary in order that a jury may determine the issues of fraud in its proper setting.

Furthermore, the defendants have raised the statute of limitations as a bar to the prosecution of this claim. In that respect the jury made a specific finding that Larsen has not received such information as would lead a reasonable person to suspect that Munsingwear was defrauding him at any time more than three years before the commencement of this action. It is undisputed, however, that on or about December 16, 1968. Garter-Bare through its general partner Larsen came into possession of a publication by the Hollywood Vassarette Division of Munsingwear which contained a color photograph of a woman wearing a Hollywood Vassarette 988 panty

girdle. Such publication was a twelve-page brochure identified as "Supplement to Women's Wear Daily Advertisement, dateS November 7, 1968 (Exhibit D 112).

Upon inspection of this photograph, Larsen became concerned that Munsingwear was improperly or unjustly marketing Garter-Bare girdle structures without compensation to Garter-Bare.

Prior to December 23, 1968, Larsen had discussed the Munsingwear 988 girdle as disclosed in the Hollywood Vassarette brochure with two Garter-Bare attorneys, Mr. Burum and Mrs. Wallen. On December 23, 1968, Mr. Burum wrote to Mr. A Byron Reed, president of Munsingwear, Inc., and indicated that Garter-Bare felt that Munsingwear's "stocking locking" girdle styles No. 888 and 988 were a direct result

of the agreement which had existed between Garter-Bare and Munsingwear (Exhibit D 113).

In the face of this undisputed evidence, the jury's findings on the statute of limitation issue is contrary to the great weight of evidence.*/ Thus, for this additional reason a new trial should be granted on the issue of fraud.

The defendants have added an additional ground for a new trial--the discovery of new evidence relevant to the issue which was not available to them at the time of the trial. If this evidence is true, it further supports defendants' contention that the fraud count is barred by the statute of limitations.

UNFAIR COMPETITION

The jury awarded plaintiffs $500,000.00 in compensatory damages for interference

with Garter-Bare's prospective business advantage. This advantage was the opportunity to license its product to the garment industry. Plaintiffs contend they were prevented from prospective advantage by the defendants patenting their own girdle, which made it impossible for plaintiffs to license their own patent for a similar girdle.

In order to establish such interference, plaintiffs must prove: first, a potential economic relationship containing the probability of future economic relationship containing the probability of future econmic benefits to it; and second, proximately caused damages. See Buckaloo v. Johnson, 14 Cal. 3d 815, 827, 122 Cal. Rptr. 745 (1975).

Having held that the plaintiffs' patent is invalid, plaintiffs' potential for

econmic benefic derived from the licensing and sale of its product is limited to competing in the marketplace with a product whose concept lies wholly within the public domain. The defendants, by obtaining the Cuozzi patent and later dedicating it to the public, caused no tortious interference with plaintiffs' prospective business. Plaintiffs and defendants are simply both competitors, free to engage in legitimate competitive exercise.

Furthermore, Garter-Bare could show no damage. It could not name any specific licensees and there was no evidence to show that any manufacturer declined to contract with the plaintiffs because of the fear of legal battle with the defendants. In my view, the plaintiffs have failed to establish their claim of unfair competition, and the jury's verdict as to

this issue must be set aside and a judgment entered for the defendants.

In the event of a reversal of this decision, it would appear that an order granting a new trial would be appropriate in view of the fact that the jury's finding of patent validity and misappropriation of trade secrets undoubtedly was a major factor in the jury's award. This court's ruling to the contrary on both issues would undoubtedly bring about a much different result in the event of a new trial.

DAMAGES

In my judgment the award of damages in this case as to all counts is excessive. No doubt the jury was influenced to a great extent by the belief that the Larsen patent was valid and was infringed and that Munsingwear had misappropriated Larsen's trade secrets. Furthermore, an assessment

of the damages on the issue of fraud should wait a new trial in order to determine whether that count is barred by the statute of limitations. The award of punitive damages in the sum of $15,000,000.00 is also excessive and was no doubt based upon the same erroneous assumptions upon which the compensatory award was determined.

As a result of the foregoing,

IT IS HEREBY ORDERED that a judgment non obstante veredicto be awarded the defendants on the issue of the breach of contact, the issue of trade secrets, and on the issue of patent validity, and in the event of a reversal by the Circuit Court of Appeals of this court's decision on any of these issue, the court grants a new trial on such issues on the ground that the jury's verdicts are contrary to the great weight of the evidence, and the verdict is excessive.

IT IS FURTHER ORDERED that a new trial be granted on the issue of unfair competition.

DATED: December 15, 1981.

JESSE W. CIRTIS
United States District Judge

FOOTNOTE

*/

The California three-year statute of limitations for fraud, (C.C.P § 338 (4)), begins to run "when a reasonably prudent person would have had such knowledge as to put him on inquiry. . . ." Garter-Bare Co. v. Munsingwear, Inc., 622 F.2d 416, 423 (9th Cir. 1980. Once a party is aware of sufficient facts to be put on inquiry, he is charged with "the knowledge of facts which could have been discovered by . . . an investigation." Bedolla v. Logan & Frazer, 52 Ca. App.3d 118, 131 (1975).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

GARTER-BARE COMPANY, an unincorporated association (a limited partnership) and KNUT L. BJORN-LARSEN,	)	
Plaintiffs,	)	No. CV 73-1911-JWC
v.	)	ORDER AMENDING MEMORANDUM AND ORDER DATED DECEMBER 15, 1981
MUNSINGWEAR, INC., a corporation,	)	
Defendant.	)	

Plaintiffs having moved pursuant to Title 28 U.S.C.A. § 1292(b) to amend this court's Memorandum and Order dated December 15, 1981 and entered December 17, 1981 to include therein certain statements required by 28 U.S.C.A. § 1292(b) and F.R.A.P. Rule 5(a); and

Plaintiffs having moved pursuant to F.R.C.P. Rule 59(e) to amend said

Memorandum and Order to correct certain errors therein; and

Defendant having moved pursuant to F.R.C.P. Rule 60(a) to correct clerical errors in said Memorandum and Order; and

The court having heard the arguments of counsel, considered the briefs filed herein, and being fully advised, it is

ORDERED, that the Memorandum and Order dated December 15, 1981 and entered December 17, 1981 is hereby amended by deleting the last two paragraphs thereof and inserting in place thereof the following three paragraphs:

> "IT IS HEREBY ORDERED that a judgment non obstante veredicto be awarded the defendant on the issue of the breach of contract, the issue of trade secrets, the issue of unfair

competition, and on the issue of patent validity, and in the event of a reversal by the Circuit Court of Appeals of this court's decision on any of these issues, the court grants a new trial on such issues on the ground that the jury's verdicts are contary to the great weight of the evidence, and the verdict is excessive.

"IT IS FURTHER ORDERED that a new trial be granted on the issue of fraud, and further that defendant's Rule 60(a) motion be granted.

This order involves a controlling question of law as to which there is substantial ground for difference of opinion, and an immediate appeal from this order may materially advance the ultimate termination of this litigation."

DATED: February 12, 1982

JESSE W. CURTIS
United States District Judge

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

GARTER-BARE COMPANY ET AL	CASE NUMBER
PLATINTIFF(S)	CV 73-1911-JWC
vs	
MUNSINGWEAR, INC.	NOTICE OF ENTRY
DEFENDANT(S)	

TO THE ABOVE NAMED PARTIES TO THEIR ATTORNEY(S) OF RECORD:

You are hereby notified that ORDER AMENDING MEMORANDUM & ORDER Dated 12-15-81 in the above entitled case was entered in the docket on 2-16-82.

You are also notified that if this case was tried and you introduced exhibits into evidence, they must be claimed at this office after the expiration of thirty days from the receipt of this notice. (After

sixty days in cases in which the United States, its officers or agencies were parties). Unless they are claimed within thirty days after the expiration of the above period, they will be destroyed pursuant to Local Rule 20(a). If an appeal is taken they will, of course, be held until the Appellate Court finally determines the matter. Exhibits which are attached to a pleading will not be destroyed but will remain as a permanent record in the case file.